

## Message Text

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ACTION ARA-10

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PRS-01 OPIC-03 ( ISO ) W

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R 021300Z JUN 75

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 8923

C O N F I D E N T I A L SECTION 1 OF 2 CARACAS 5602

E.O. 11652: GDS

TAGS: ENRG, EINV, VE

SUBJECT: STATUS OF REVERSION TALKS WITH OIL COMPANIES

REF: CARACAS 1973

1. SUMMARY. THE TALKS BETWEEN THE PRESIDENTIAL COMMISSION AND THE THREE MAJOR OIL COMPANIES (REFTTEL) HAVE BEEN CONTINUING, BUT IN WHAT THE COMPANIES DESCRIBE AS A DESULTORY FASHION. THE COMPANIES DOUBT THAT THE GOV AS YET KNOWS WHAT KIND OF NATIONALIZATION IT WANTS. SHELL HAS SHOCKED THE GOV BY PUTTING ITS POST NATIONALIZATION OIL REQUIREMENTS AT A LOW LEVEL. THE GOV MAY FEEL THAT THE COMPANIES ARE TRYING TO EXERT PRESSURE THROUGH THE ISSUE OF HOW MUCH OIL THEY ARE PREPARED TO TAKE AFTER NATIONALIZATION. THE SMALLER CONCESSIONARIES ARE FOCUSING ON COMPENSATION AND FEEL THEMSELVES THREATENED BY THE PROVISIONS IN THE DRAFT LEGISLATION ON THE UNITIZATION AGREEMENTS WITH CVP. A PRINCIPAL ISSUE FOR ALL THE COMPANIES IS THE TAX TREATMENT OF INVESTMENTS MADE THIS YEAR AND OF PURCHASE ORDERS FOR 1976 SUPPLIES AND EQUIPMENT. END SUMMARY.

2. THE THREE-MAN PRESIDENTIAL COMMISSION, WHICH HAS BEEN  
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CONDUCTING IRREGULAR TALKS WITH THE OIL COMPANIES SINCE

FEBRUARY, CONTINUES TO CONFINE ITS CONTACTS TO SHELL, CREOLE AND MENE GRANDE. IN PRINCIPLE, THE MEETINGS ARE SCHEDULED ONCE A WEEK ON MONDAYS, WEDNESDAYS AND FRIDAYS IN THE ORDER OF COMPANIES LISTED ABOVE. HOWEVER, THE COMMISSION FREQUENTLY CANCELS MEETINGS, USUALLY ON SHORT NOTICE. THE SESSIONS ARE NEVER HELD IN THE ABSENCE OF THE MINISTER OF MINES AND HYDRO-CARBONS VALENTIN HERNANDEZ. AS A CONSEQUENCE OF HIS TRAVEL TO GABON FOR THE OPEC MEETING THERE WILL BE NO MEETINGS DURING THE FIRST HALF OF JUNE.

3. SO FAR, OF THE THREE, ONLY CREOLE HAS PRESENTED A PROPOSAL TO THE COMMISSION FOR A POST-NATIONALIZATION ARRANGEMENT. WE UNDERSTAND THAT PROPOSAL TO BE VERY GENERAL IN NATURE. SHELL HAS AGREED TO SUBMIT ITS "PACKAGE" ON JUNE 16, THE FIRST MEETING DATE AFTER THE MINISTER'S RETURN FROM GABON. MENE GRANDE HAS BEEN UNDER PRESSURE FROM THE COMMISSION AND WILL PROBABLY SUBMIT A PROPOSAL AT ITS NEXT MEETING SCHEDULED FOR JUNE 20.

4. THE MEETINGS TO DATE HAVE BEEN DESCRIBED TO US BY THE COMPANIES AS INCONCLUSIVE AND RAMBLING, OFTEN WITH LESS THAN THE FULL COMMISSION PRESENT, MARKED BY FREQUENT INTERRUPTIONS FOR COMMISSION MEMBERS TO TAKE PHONE CALLS, AND BY COMMISSION MEMBERS WANDERING IN AND OUT OF THE ROOM ON OTHER BUSINESS. ONE MEETING WITH CREOLE WAS TERMINATED ABRUPTLY BY THE MINISTER BECAUSE HE HAD HAD A BUSY DAY AND WANTED TO GO HOME.

5. THE COMPANIES ALSO ALLEGE THAT REACTIONS TO THEIR TALKING POINTS ARE FREQUENTLY INCONSISTENT, VARYING FROM POSITIVE TO NEGATIVE AND FROM ONE MEETING TO ANOTHER. APPARENTLY THE COMMISSION MEMBERS DO NOT PREPARE JOINT POSITIONS IN ADVANCE AND ARE PRONE TO DISAGREE AMONG THEMSELVES OVER POINTS UNDER DISCUSSION. THE GENERAL ATMOSPHERE TENDS TO REINFORCE THE COMPANIES' THEORY THAT THE GOV DOES NOT AS YET KNOW WHAT KIND OF NATIONALIZATION IT WANTS.

6. THE COMPANIES SEEM TO HAVE TAKEN SOME COMFORT FROM CURRENT PUBLIC QUESTIONING OF THE GOVERNMENT'S APPROACH TO NATIONALIZATION AND OF ITS SUBSEQUENT CAPACITY TO ADMINISTER THE INDUSTRY IN AN EFFECTIVE MANNER. THEY ARE OBVIOUSLY NOT INCLINED TO HELP RESOLVE SUCH UNCERTAINTIES. SHELL, FOR ONE, HAS ALREADY DROPPED SOMETHING CONFIDENTIAL

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OF A BOMBSHELL IN ITS TALKS WITH THE PRESIDENTIAL COMMISSION. PRESSED TO STATE EXACTLY HOW MUCH OIL THE COMPANY WOULD BE PREPARED TO TAKE AFTER NATIONALIZATION, SHELL FINALLY SAID ITS REQUIREMENTS WOULD BE ON THE ORDER OF 200-500,000 B/D. (SHELL NETTED 781,000 B/D FROM ITS OWN CONCESSIONS AND PURCHASES DURING 1974 AND IS CURRENTLY PRODUCING 600,000 B/D.) THE LOWER LEVEL OF SHELL'S REQUIREMENTS DID NOT GO UNNOTICED. AT A SUBSEQUENT SOCIAL EVENT FOREIGN MINISTER ESCOVAR SALOM ASKED

A SHELL OFFICIAL FOR A STRAIGHT ANSWER ON HOW MUCH OIL THE COMPANY WOULD IN FACT TAKE AFTER NATIONALIZATION. HE WAS NOT HAPPY TO GET THE SAME ORDER OF MAGNITUDE AS THAT GIVE THE COMMISSION. FURTHER, EX-PRESIDENT BETANCOURT IN A CONVERSATION WITH THE AMBASSADOR EXPRESSED GENERAL CONCERN OVER WHAT HE TOOK TO BE AN EFFORT BY THE COMPANIES TO PRESSURE THE GOV THROUGH THE ISSUE OF POST-NATIONALIZATION OFF-TAKE.

7. WHILE THE BIG THREE FIND THEMSELVES INVOLVED IN THESE DESULTORY TALKS, THE SMALLER CONCESSIONAIRES ARE IN AN EVEN MORE UNCERTAIN SITUATION. FOR EXAMPLE, A SUN OIL OFFICIAL BELIEVES THAT THE SMALLER COMPANIES MIGHT WELL DISAPPEAR AFTER NATIONALIZATION SINCE THE BIG THREE HAVE THE CAPACITY TO PRODUCE THE TOTAL VOLUME OF OIL NOW PROJECTED. THUS, WITH NO APPARENT PROSPECTS AFTER NATIONALIZATION, THE SMALLER CONCESSIONAIRES ARE NOW FOCUSING CLOSELY ON THE ISSUE OF COMPENSATION.

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R 021300Z JUN 75

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 8924

C O N F I D E N T I A L SECTION 2 OF 2 CARACAS 5602

8. THE UNITIZATION AGREEMENTS WHICH SEVERAL COMPANIES HAVE WITH CVP ARE LOOMING ONCE AGAIN AS A POSSIBLE MAJOR ISSUE AFFECTING COMPENSATION. THIS PAST WEEK BANNER PRESS TREATMENT WAS GIVEN TO A REPORT WHICH THE PUBLIC ACCOUNTANTS FEDERATION PRESENTED THE SENATE MINES AND HYDROCARBONS COMMISSION CLAIMING THAT OIL COMPANIES OWE MORE THAN BS. 5 BILLION TO CVP UNDER THE

UNITIZATION AGREEMENTS. THE COMPANIES, WHICH INCLUDE MOBIL, PHILLIPS, TAXACO, SUN-RAY AND SUN, ARE SUFFICIENTLY CONCERNED ABOUT THE PROBLEM TO HAVE AGREED INFORMALLY TO APPROACH THE GOV AS A GROUP. UNDER ARTICLE 15 (B) OF THE DRAFT REVERSION LAW, THE VALUE OF OIL EXTRACTED FROM THE UNITIZED FIELDS WHICH CVP COULD CLAIM AS ITS ALLOCATED SHARE CAN BE DEDUCTED FROM INDEMNIFICATION. IN CERTAIN CASES, ENFORCEMENT OF THIS DEDUCTION WOULD WIPE OUT THE INDEMNITY PAYMENT TO A COMPANY.

9. ONE OTHER ISSUE INVOLVING ALL THE OIL COMPANIES, AND A MAJOR ITEM OF DISCUSSION BETWEEN THE BIG THREE COMPANIES AND THE PRESIDENTIAL COMMISSION, IS THE TAX TREATMENT OF INVESTMENTS MADE THIS YEAR AND PURCHASE ORDERS FOR 1976 SUPPLIES AND EQUIPMENT. IN JANUARY 1975, THE OIL COMPANY INCOME TAX LAW WAS AMENDED TO PERMIT THE COMPANIES TO DEDUCT INVESTMENTS MADE THIS YEAR FROM THEIR TAX PAYMENTS. THERE IS A DIFFERENCE OF OPINION  
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BETWEEN MINISTRIES OF FINANCE, AND MINES AND HYDROCARBONS, OVER THE INTERPRETATION OF THE NEW TAX RULE. FINANCE HAS LIMITED THE TAX DEDUCTIONS TO A SMALLER LIST OF EQUIPMENT AND PRODUCTS THAN MINES AND HYDROCARBONS BELIEVES IS ESSENTIAL FOR THE FUTURE EFFICIENCY OF THE INDUSTRY, AND HAS BEEN VAGUE ON TAX TREATMENT OF PURCHASES FOR 1976. FINANCE CONTENDS THAT WITH A LOWER PRODUCTION RATE FORECAST, THERE IS NO NEED TO AUTHORIZE EQUIPMENT PURCHASES THAT WOULD SUSTAIN THE FORMER, LARGER PRODUCTION CAPACITY. FINANCE ALSO IS RELUCTANT TO APPROVE THE REVENUE LOSS THAT LARGER DEDUCTIONS WOULD ENTAIL. BECAUSE OF THE INSISTENCE OF THE MINES MINISTRY ON APPROVING A LARGER LIST OF EQUIPMENT PURCHASES, AND ON AGREEING TO DEDUCTIONS FOR 1976 PURCHASES, FINANCE VICE MINISTER IVAN PULIDO DECLINED TO APPROVE ANY DEDUCTIONS UNTIL THE INTERNAL GOV ARGUMENT WAS RESOLVED. AN OIL COMPANY CONTACT REPORTED THE FINANCE MINISTER HURTADO OVERRULED HIS VICE MINISTER AND ORDERED THAT THE LOWER LEVEL OF TAX DEDUCTIONS BE ALLOWED AS AN INTERIM MEASURE IN TIME FOR THE TAX PAYMENTS DUE MAY 30 FROM THE OIL COMPANIES. THERE WAS ALSO "VAGUE" ASSURANCE GIVEN THE COMPANIES THAT THEY COULD PROCEED WITH 1976 ESSENTIAL PURCHASES, BUT THE COMPANIES ARE NOT SATISFIED WITH THAT REPLY.  
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